

Message Text

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ACTION EB-11

INFO OCT-01 AF-10 EUR-25 NEA-10 ADP-00 AID-20 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 L-03 H-02 PA-03 PRS-01 USIA-12 RSR-01

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R 230506 Z APR 73

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 6465

INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 1 OF 2 KUWAIT 1295/1

BEIRUT PASS BAGHDAD

DEPT PASS TREASURY

E. O. 11652 GDS

TAGS: EFIN KU

SUBJECT: KUWAIT FOREIGN EXCHANGE RESERVES (C- ER-3-57220)

REF: STATE 67409

SUMMARY: EXACT BREAKDOWN OF FOREIGN RESERVES UNAVAILABLE.

MOST NOTICEABLE TREND HAS BEEN AMONG PRIVATE KUWAITIS
WHO HAVE BEEN CONVERTING LIQUID DOLLAR HOLDINGS TO DINAR
ASSETS. ALSO INCREASING TENDENCY TO EMPHASIZE SHORT
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TERM RATHER THAN MEDIUM OR LONG TERM INVESTMENTS IN EFFORT HEDGE AGAINST EXCHANGE RISKS. FUNDAMENTAL PROBLEM REMAINS, HOWEVER, OF DESIRABLE CURRENCIES SUCH AS YEN AND D- MARK NOT BEING SUFFICIENTLY AVAILABLE TO ABSORB KUWAITI INVESTMENTS SO THAT LARGE AMOUNT OF KUWAITI HOLDINGS WILL REMAIN IN DOLLAR ASSETS. END SUMMARY.

1. AS PREDICTED REFTEL PRECISE AND CURRENT INFO ON KUWAITI FOREIGN RESERVE HOLDINGS UNAVAILABLE ALTHOUGH EMBASSY WILL CONTINUE EFFORTS OBTAIN ADDITIONAL DATA. ASSUME IN PARA 1 REFTEL DEPT MEANT TO SAY THAT KUWAITI FOREIGN EXCHANGE HOLDINGS WERE 2,660 MILLION (TWO BILLION SIX HUNDRED SIXTY MILLION) AND NOT RPT NOT 266 MILLION. (OTHER DETAILS WERE CONTAINED KUWAIT 1038 AND 898).

2. LATEST STATISTICAL INFO ON FOREIGN ASSETS HELD BY KUWAITIS IS AS FOLLOWS: RE GOK, AS OF END FY 1972, I. E. MARCH 31, 1972, MINISTRY OF FINANCE AND OIL (MFO) HELD KD 605 MILLION. (AT THAT TIME KD 1 EQUALED 33.05; CURRENTLY KD 1 EQUALS \$3.45). AS OF DECEMBER 1972 CENTRAL BANK OF KUWAIT HELD APPROXIMATELY KD 126 MILLION OF WHICH NOT QUITE KD 37 MILLION WAS IN GOLD. AS OF MARCH 31, 1972 CENTRAL BANK HELD KD 102 MILLION SO THAT IN NINE MONTHS ITS FOREIGN ASSETS INCREASED BY APPROXIMATELY 25 PERCENT. NOT CLEAR HOW FAST MFO'S ASSETS INCREASED BUT RATE OF INCREASE DURING PREVIOUS YEAR HAD BEEN 37 PERCENT AND WE BELIEVE FOREIGN ASSETS INCREASED MORE RAPIDLY DURING FY 1973 BECAUSE OF INCREASING OIL REVENUES. ASSUMING 40 PERCENT INCREASE MFO PROBABLY HELD AT LEAST KD 850 MILLION AS OF DECEMBER 1972 SO THAT MFO AND CENTRAL BANK TOGETHER HELD NOT QUITE KD 1 BILLION IN FOREIGN ASSETS AT END OF 1972. STATED IN DOLLARS GOK HELD ABOUT \$3 BILLION AS OF DECEMBER 31, 1972 . WE BELIEVE THIS TO BE CONSERVATIVE ESTIMATE.

3. KUWAIT'S FIVE LOCAL COMMERCIAL BANKS HELD KD 370 MILLION AS OF MARCH 31, 1972 AND KD 478 .3 MILLION AS OF DECEMBER 31, 1972. THUS DURING NINE MONTH PERIOD NET FOREIGN ASSETS HELD BY KUWAIT COMMERCIAL BANKS
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INCREASED BY AROUND 30 PERCENT. THUS TO GOK'S \$3

BILLION RESERVES AT END OF 1972 SHOULD BE ADDED
PRIVATE BANKS' FOREIGN ASSET HOLDINGS OF APPROXIMATELY
\$1.5 BILLION.

4. REAL AREA OF DOUBT IS FOREIGN ASSETS HELD BY
INDIVIDUAL KUWAITIS IN FOREIGN BANKS. NO ONE KNOWS
FOR SURE BUT MOST KNOWLEDGEABLE LOCAL OBSERVERS TEND
TO ASSUME THAT NET PRIVATE FOREIGN ASSETS ARE EQUAL
TO SUM OF NET GOK AND COMERCIAL BANK FOREIGN ASSETS.
IF THIS TRUE THEN PRIVATE INDIVIDUALS, INCLUDING
COMPANIES, HELD APPROXIMATELY \$4.5 BILLION AT END OF
1972 AND ALL KUWAITIS INCLUDING GOK AND BANKS HELD
ABOUT \$9 BILLION INF FOREIGN ASSETS AT THAT TIME.

5. SO FAR THERE ARE NO AUTHORITATIVE STATISTICS AVAIL-
ABLE WHICH WOULD ALLOW ANALYSIS OF FOREIGN ASSET HOLDINGS
SINCE DOLLAR DEVALUATION. MOREOVER, APART FROM CENTRAL
BANK GOLD STATISITICS, INFO ON INDIVIDUAL CURRENCY
HOLDINGS IS NOT NORMALLY AVAILABLE. THEREFORE, WE
ABLE PROVIDE LITTLE MORE THAN DESCRIPTION OF GENERLA
TRENDS AND MOOD OF LOCAL FINANCIERS.

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ACTION EB-11

INFO OCT-01 AF-10 EUR-25 NEA-10 ADP-00 AID-20 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07

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6. MOST APPARENT TRENDS CURRENTLY APPEAR AMONG PRIVATE INVESTORS WHO TENDING CONVERT DOLLAR HOLDINGS TO DINAR ASSETS IN LOCAL BANKS. TREND TOWARD REPATRIATION OF OVERSEAS HOLDINGS APPARENT FOR AT LEAST A YEAR AND MAY ACCOUNT IN PART FOR RAPID RISE IN LOCAL BANKS' ASSETS. OTHER TREND IS TO MOVE TO SHORT TERM PAPER IN EFFORT HEDGE AS BEST AS POSSIBLE AGAINST FURTHER DEVALUATIONS. ON OTHER HAND IF INDIVIDUAL KUWAITI CONVERTS DOLLAR ASSET TO DINAR DEPOSIT LOCAL BANK HAS TO PUT THAT MONEY TO WORK, MOST LIKELY IN A FOREIGN INVESTMENT, WITH RESULT THAT NET FOREIGN HOLDINGS BY KUWAITI INDIVIDUALS AND INSTITUTIONS REMAINS CONSTANT. WE NOTE THIS WOULD TEND SUGGEST \$9 BILLION TOTAL NOTED PARA 4 MAY BE SOMEWHAT OVERSTATED IN TERMS
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PRE- DEVALUATION DOLLARS.

7. RE GOK ITSELF MFO SOURCE SAID GREAT MAJORITY GOK' S ASSETS ARE IN MEDIUM AND LONG TERM HOLDINGS SO THAT THERE HAS BEEN LITTLE CHANGE IN STRUCTURE GOK' S RESERVES. SIMILARLY DEPUTY GOVERNOR CENTRAL BANK INDICATED THAT AS PRACTICAL MATTER IT HAS NOT BEEN ABLE MAKE SIGNIFICANT SHIFTS IN MAKE- UP ITS ASSETS.

8. FACT REMAINS THAT LATEST DEVALUATION WAS JOLT AND FAITH IN STABILITY OF DOLLAR HAS BEEN WEAKENED. THUS DESIRE RPT DESIRE OF KUWAITIS IS TO SHIFT TO YEN, D- MARK, ETC. OR IF NEED BE INTO KUWAITI DINARS. VOLUME OF ASSETS, HOWEVER, REQUIRES THAT LARGE PORTION OF ASSETS WILL CONTINUE TO BE HELD IN DOLLARS. FACT THAT DOLLAR IS INTERNATIONAL TRADING AND INTERVENTION CURRENCY ALSO FACTORS.

9. IN SUMMARY, LATEST DOLLAR DEVLUTION HAS ACCELERATED TREND AMONG INDIVIDUAL KUWAITIS TO REPATRIATE AT LEAST SOME OF THEIR FOREIGN HOLDINGS AND CONVERT THEM TO DINARS AND HAS HEIGHTENED DESIRE OF LOCAL INSTITUTIONS TO DIVERSIFY ASSETS AND LEAN TOWARD SHORTER- TERM ASSETS. VARIETY OF FACTORS, HOWEVER WILL REQUIRE KUWAITIS TO CONTINUE TO MAINTAIN LARGE

DOLLOAR HOLDINGS. MOREOVER, INCONNECTION WITH LONGER
TERM INVESTMENTS SOME EVIDENCE EXISTS, AS REPORTED
PREVIOUSLY, THAT KUWAITIS BECOMING INCREASINGLY
INTERESTED IN INVESTING IN US.
STOLTZFUS

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